



STOCK EXCHANGE LISTINGS: NEW ZEALAND (MCY) / AUSTRALIA (MCY)

NEWS RELEASE

Investor Roadshow Presentation – November 2016

22 November 2016

Mercury will be giving presentations at a series of international investor meetings during November 2016.

The presentation materials are attached.

ENDS

For further information:

David Glendining
Head of Communications
T 0272 105 337

Tim Thompson
Investor Relations/Treasury
T 0275 173 470

ABOUT MERCURY NZ LIMITED

At Mercury we're thinking boldly about the possibilities with energy and inspiring New Zealanders with our renewable electricity and ideas – making energy wonderful. Energy from Mercury's hydro and geothermal stations will power a brighter future for our country.

Visit us at: www.mercury.co.nz



Mercury

Investor Roadshow

FRASER WHINERAY
Chief Executive

WILLIAM MEEK
Chief Financial Officer

22 November 2016



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3 COUNTRY, INDUSTRY & MERCURY



NEW ZEALAND ECONOMIC OVERVIEW

Key Facts

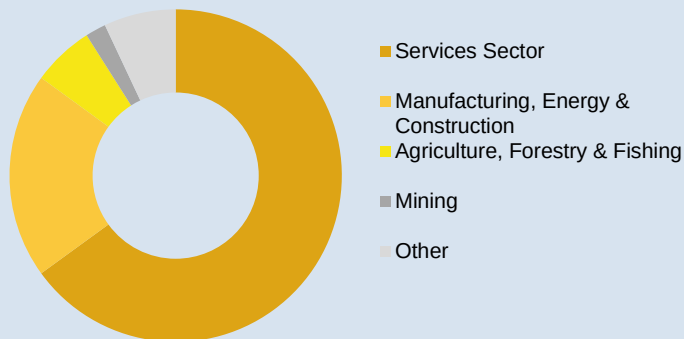
Credit Rating: **AA/stable**

Population: **4.7 million**

Currency: **New Zealand Dollar (NZD)**

GDP: **NZ\$250 billion**

NEW ZEALAND GDP BY SECTOR



- > Stable political environment
 - > National government since 2008 and in 3rd term
- > Robust GDP growth achieved over recent years (currently 3.6%¹), with below-trend unemployment (currently 4.9%²)

Current supportive drivers of GDP growth include:

- > Strong tourism growth
- > Robust construction sector activity
- > Robust house price growth
- > Low interest rate environment (1.75% cash rate)
- > Historic high net migration (60,000 net annual inflows or 1.3%)

Factors dampening GDP growth include:

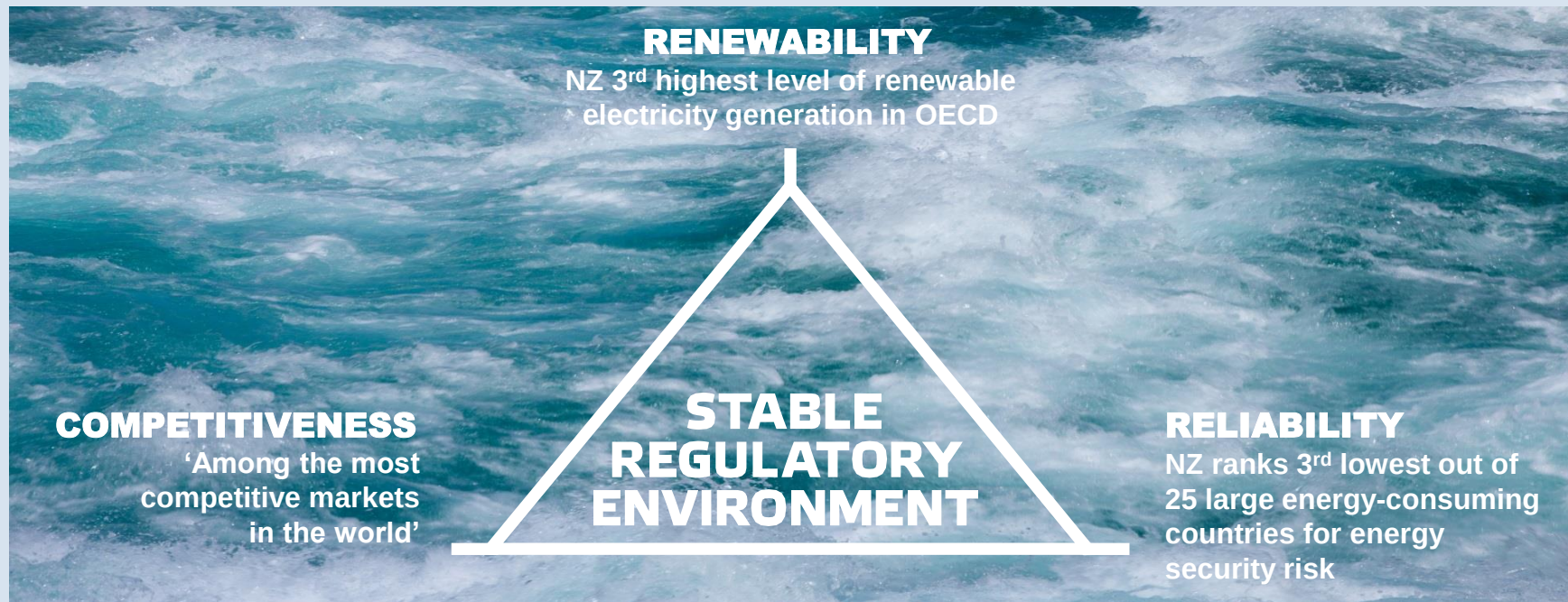
- > Global geopolitical and growth concerns
- > Slower growth profile for China and East Asia
- > Canterbury rebuild activity at peak
- > Inflation expected to stay below central bank target (1-3%) over the near-term (currently 0.4%²)

¹ Year to 30 June 2016

² Year to 31 September 2016



NEW ZEALAND'S COMPETITIVE ADVANTAGE IN ELECTRICITY



Source: Accenture, Ministry of Business, Innovation & Employment, United States Chamber of Commerce



THE INDUSTRY WE OPERATE IN

1 GENERATORS

- > Generate electricity and sell to wholesale market
- > 5 major generators producing about 95% of NZ's electricity
- > 80% renewable electricity (unsubsidised)
- > Solar installed in 11,500 or 0.6% of total customer connections

2 THE NATIONAL GRID

- > Transpower (State-owned Enterprise) is owner and operator
- > Transports high voltage electricity to networks and large industrial users
- > 1200MW HVDC link between South and North Islands



4 RETAILERS AND CONSUMERS

- > 22 retailers buy from wholesale market and on-sell to nearly 2 million consumers
- > Retail prices determined by competition (unregulated)
- > Electricity Authority responsible for promoting competition, efficiency and reliability of supply for long-term benefit of consumers
- > NZAS (aluminium smelter) 13% of national demand
- > 2 major metering companies with national smart meter penetration of 69%

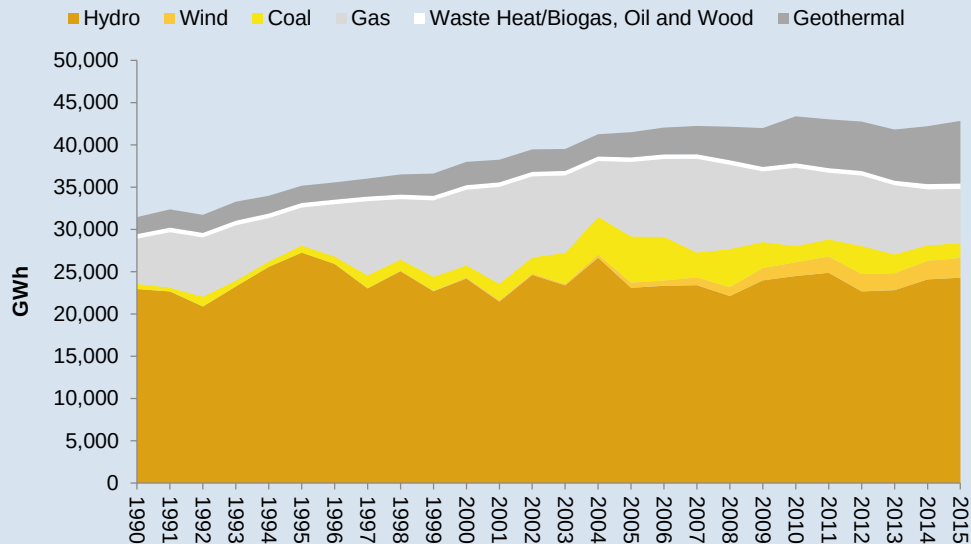
3 DISTRIBUTION AND NETWORK OWNERS

- > 15,000km of overhead and underground networks
- > 29 distribution companies
- > Regulated monopolies

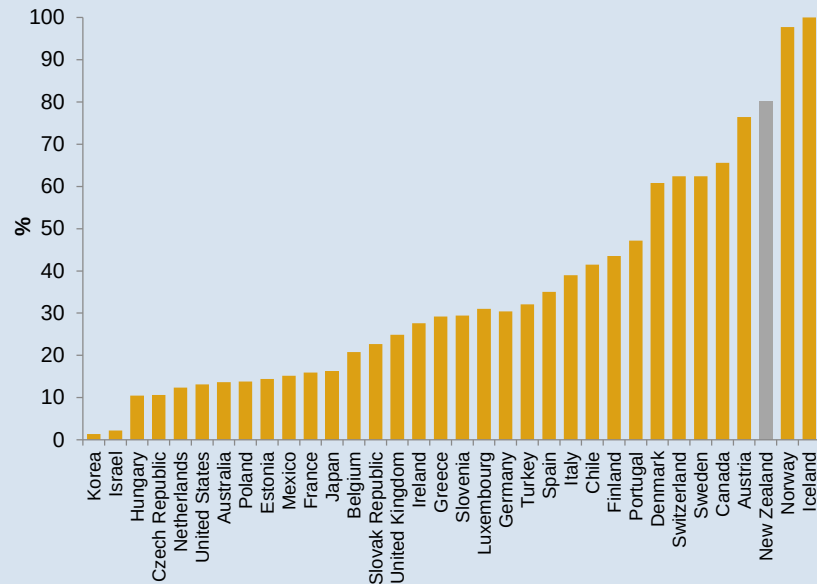


UNSUBSIDISED RENEWABLE ELECTRICITY MARKET

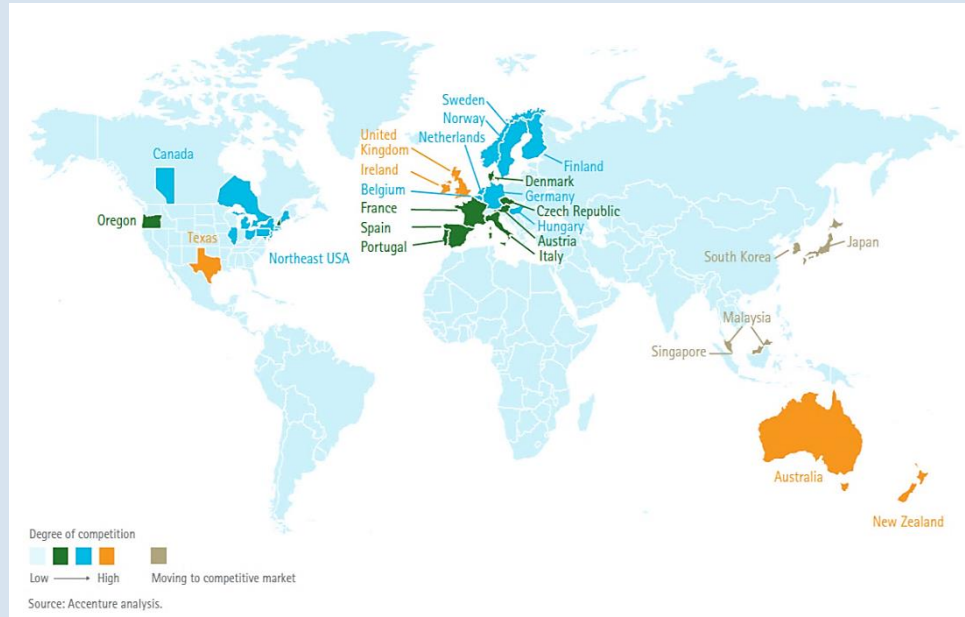
NEW ZEALAND'S GENERATION MIX



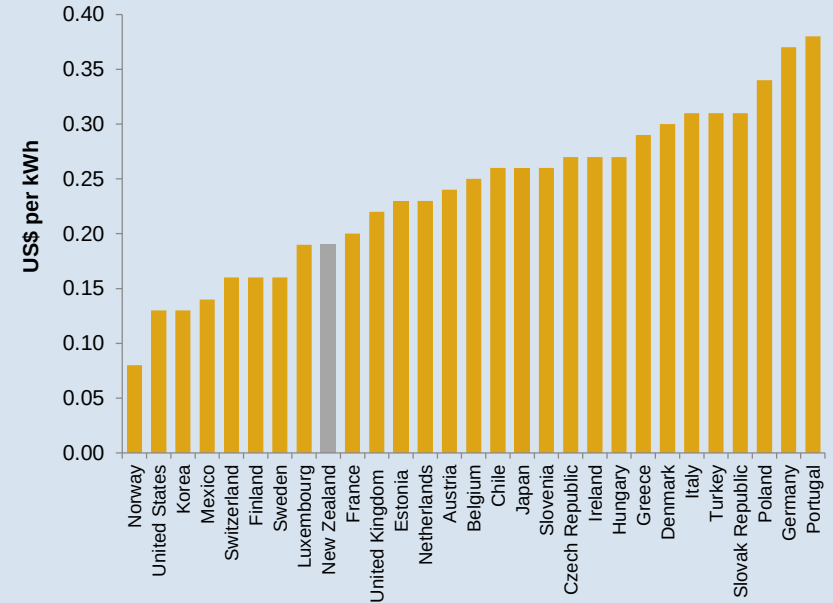
2015 OECD RENEWABLE ELECTRICITY



COMPETITIVE RETAIL MARKET



2015 OECD RESIDENTIAL ELECTRICITY PRICES¹



REGULATORY

Market

- > Government and opposition parties constructively engaged in policy discussions
- > Consultation continues on changes to the methodology for recovering the cost of transmission (Transmission Pricing Methodology - TPM) with implementation likely beyond 2019
 - > Additional Mercury charges minor (indicatively assessed by Electricity Authority at ~\$5m/annum)
- > Regulatory focus on reforms to distribution pricing in response to emerging technology

Water

- > No charge for use of water for hydro generation
- > Consultation at national and regional levels regarding water quality standards and long-term water management
- > Government has established a technical advisory group to advise on water allocation approaches to address Maori rights and interests

Climate

- > Carbon cost expected to increase with the removal of the transitional 2-for-1 surrender obligations under the NZ Emissions Trading Scheme (ETS)
- > Carbon pricing has increased 250% through FY2016 to circa \$18/t
- > Government announced policy package to promote the adoption of EVs - target 64,000 vehicles by 2021



INTEGRATED ELECTRICITY GENERATOR & RETAILER

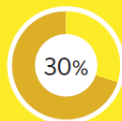
>> NORTH ISLAND

> MERCURY

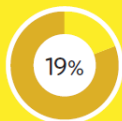
	FY16	YOY CHANGE
GENERATION VOLUME (GWh)	6,842	4.3%
TOTAL SALES VOLUME ¹ (GWh)	6,359	0.1%
CUSTOMER (000)	339	-2.6%
AMI METER ASSETS (000)	382	2.1%

> INDUSTRY

FY16 MARKET SHARE



GENERATION



SALES

> TOTAL

	FY16	YOY CHANGE
DEMAND (GWh)	25,314	0.4%
POPULATION ²	3,518,900	2.0%
GDP ² (000,000)	184,955	3.8%

¹ Not 100% owned by Mercury

WE REPRESENT
14%
OF NATIONAL
SALES

WE REPRESENT
17%
OF NATIONAL
GENERATION

WE HAVE
825
EMPLOYEES



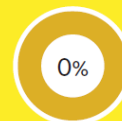
>> SOUTH ISLAND

> MERCURY

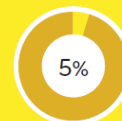
	FY16	YOY CHANGE
GENERATION VOLUME (GWh)	0	N/A
TOTAL SALES VOLUME ¹ (GWh)	49.6	38.4%
CUSTOMER (000)	37	8.8%
AMI METER ASSETS (000)	14	2.0%

> INDUSTRY

FY16 MARKET SHARE



GENERATION



SALES

> TOTAL

	FY16	YOY CHANGE
DEMAND (GWh)	14,750	0.1%
POPULATION ²	1,076,200	1.7%
GDP ² (000,000)	56,232	3.7%

¹ Physical purchases and net derivative sales

² Based on 2015 Statistics New Zealand data





OUR PURPOSE

Inspiring New Zealanders to enjoy energy in more wonderful ways

Inspiring New Zealanders

We want to inspire New Zealanders by delivering value, innovation and outstanding experiences

To enjoy energy

We want our customers to enjoy what energy does for them and choose Mercury because we make a positive difference in their lives

In more wonderful ways

We will bring new technology and ideas to create wonderful experiences for our customers in a uniquely New Zealand context



OUR GOAL

To be New Zealand's leading energy brand



OUR STRATEGY

Mercury will create long term value for our owners by:

①

Delivering customer advocacy

Outstanding customer experience

Leading digital offerings

Culture-driven innovation

②

Leveraging core strengths

Operational efficiency

Astute portfolio management

Efficient capital allocation

③

Delivering sustainable growth

Executing relevant strategic opportunities

Being ready for domestic growth

Embracing emerging technologies



MERCURY'S COMPETITIVE ADVANTAGE



100% renewable generation with two low-cost complementary fuel sources in base-load geothermal and peaking hydro



North Island generation is uniquely located close to major load centres and not dependent on the inter-island transmission link (HVDC)



Waikato Hydro System is the largest series of peaking stations in the North Island



Rain-fed North Island hydro catchment with inflows correlated with winter peak demand (unlike South Island)



Building a track record of customer-led innovation and rewarding loyalty



Long-term commercial partnerships with Maori landowners and other key stakeholders





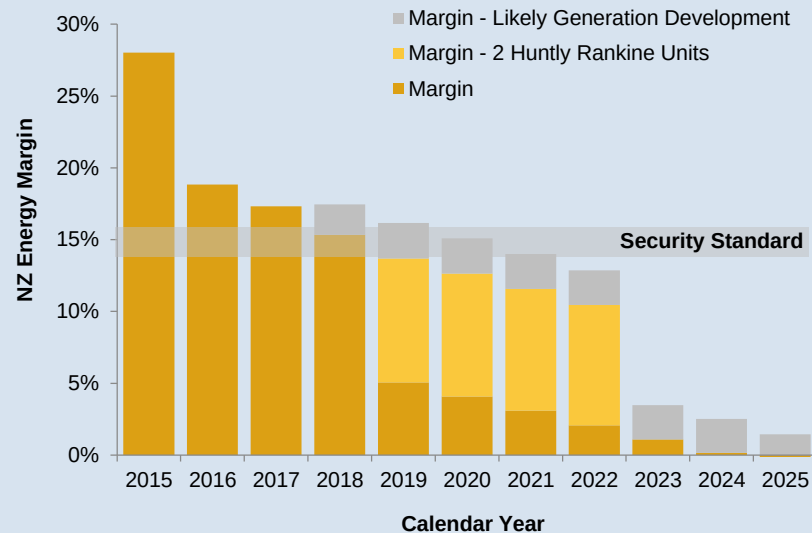
13 MARKET DYNAMICS



NEW ZEALAND ELECTRICITY SUPPLY

- > Rationalisation of thermal capacity within FY2016 has resulted in supply and demand being better balanced
- > Mercury closed 140MW Southdown power station in December 2015
- > Contact Energy closed 400MW Otahuhu B power station in September 2015
- > Genesis's Huntly Rankine units contracted through 2022 ensuring energy security
- > Ultimate future linked to on-going operation of the New Zealand Aluminium Smelter (NZAS)

NZ ENERGY MARGIN



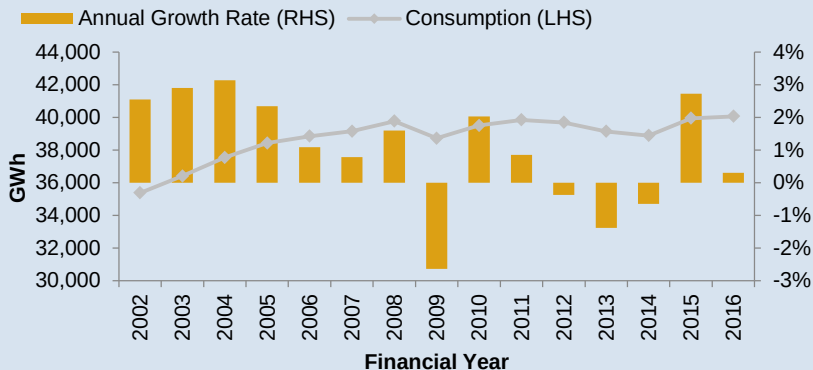
Source: Transpower, Mercury



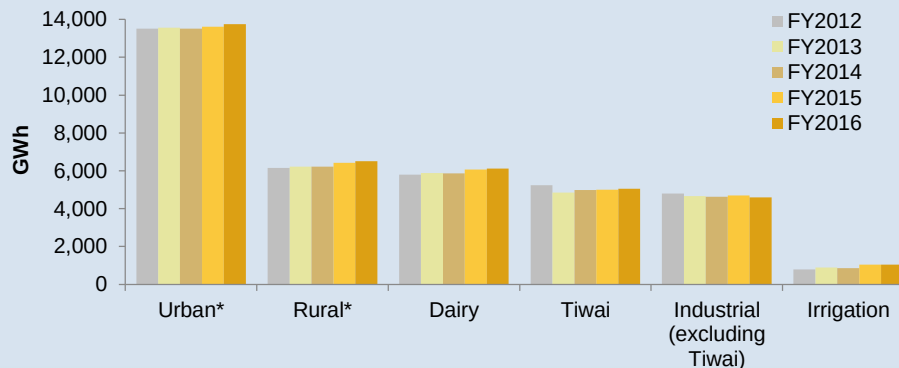
NEW ZEALAND ELECTRICITY DEMAND

- > High net migration and GDP per capita growth more than offsetting reductions in per household consumption resulting from efficiency gains
 - > Highest demand on record for FY2016 and increases over the past two financial years relative to pcg
 - > Demand up 0.3% in FY2016, 0.6% after normalising for temperature
- > Solar remains a niche customer proposition
 - > Solar installed in 11,500 or 0.6% of total customer connections

ANNUAL ELECTRICITY DEMAND AND GROWTH RATE



TEMPERATURE ADJUSTED SEGMENT ELECTRICITY DEMAND

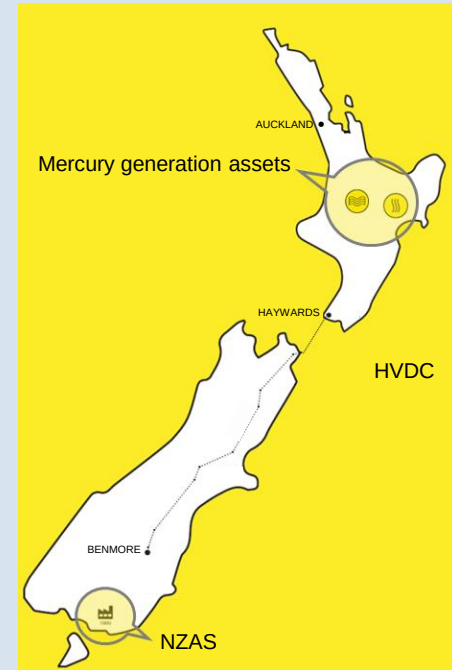


* normalised for temperature



NEW ZEALAND ALUMINIUM SMELTER (NZAS)

- > 13% of New Zealand national demand
- > Financial contract between NZAS and Meridian for 572MW through to 31 Dec 2030
 - > Annual right to terminate contract with 12 months notice from 1 Jan 2017
 - > Right to reduce from 572MW to 400MW with 12 months notice from 30 Apr 2017
- > Trading conditions for the aluminium industry remain challenging despite recent price recovery
 - > Aluminium prices have increased over last 12 months from post GFC lows to circa US\$1,750/t (up ~20%)
- > Further thermal rationalisation in the North Island highly likely in response to NZAS closure
 - > Industry has demonstrated ability to quickly respond to changes in supply and demand
- > Mercury best placed in the event of NZAS closure
 - > 100% renewable North Island generation close to major North Island load centres
 - > Physical transmission of South Island hydro generation to North Island load centres, as well as locational wholesale price effects, are second order considerations of a NZAS closure



INTERPRETING MARKET DYNAMICS

DYNAMIC: DEMAND GROWTH AND THERMAL RATIONALISATION

FUNDAMENTALS: SUPPLY AND DEMAND BETTER BALANCED



EXPECTED MARKET RESPONSE

- > Increased wholesale price volatility
- > Futures price increase
- > Commercial and Industrial (C&I) pricing increase
- > Retail margin reduction in the absence of energy price increases



OBSERVED MARKET RESPONSE

- > Annual futures pricing flat
- > Customer churn remains at high levels
- > Growing number of new entrant retailers

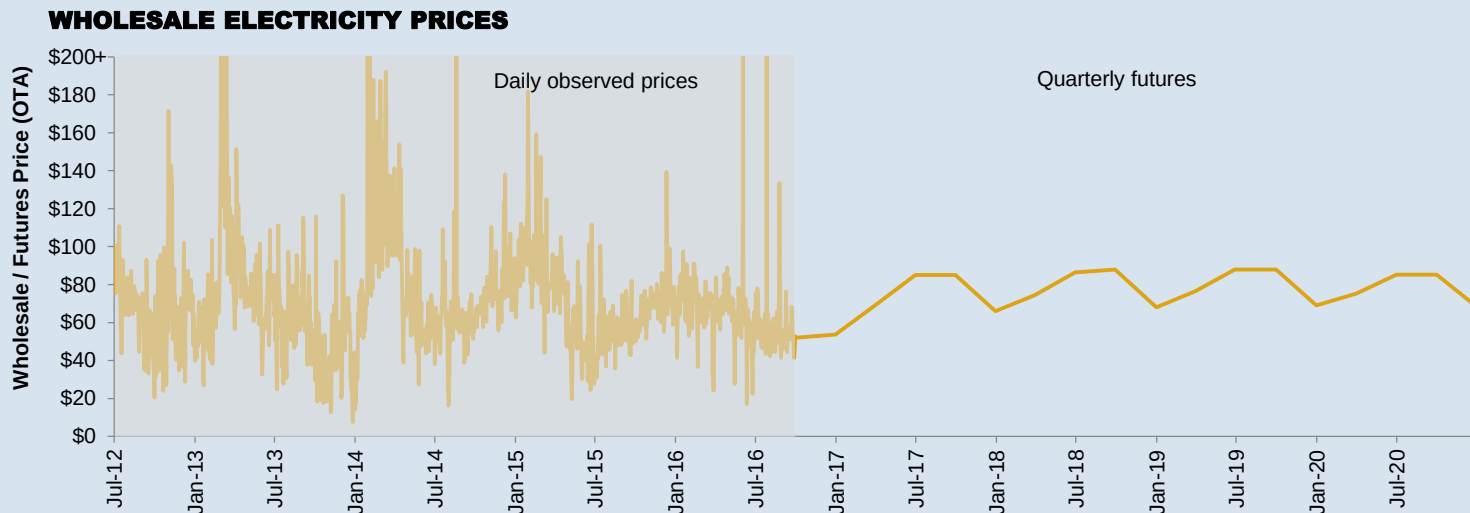
MITIGATING FACTORS

- > Benign wholesale prices due to generally above average inflows into South Island catchments and short-term management of thermal fuel positions
- > NZAS closure uncertainty



WHOLESALE ELECTRICITY PRICES

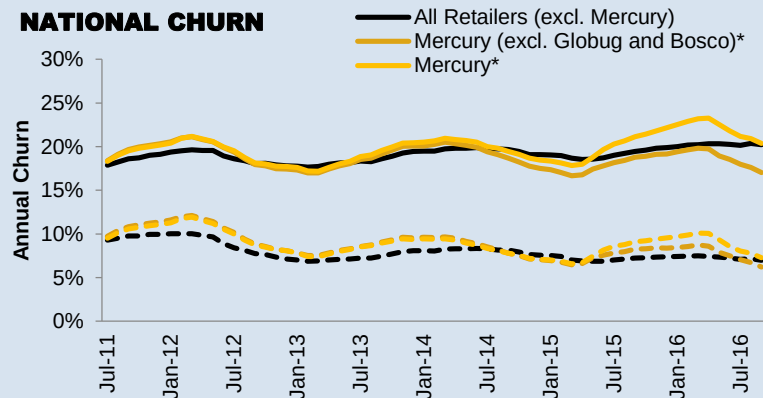
- > Wholesale spot prices and electricity futures prices not currently reflecting changes in supply and demand
 - > Benign wholesale prices due to generally above average inflows into South Island catchments and short-term management of thermal fuel positions
 - > Electricity futures prices reflecting lack of wholesale spot price volatility and NZAS closure uncertainty



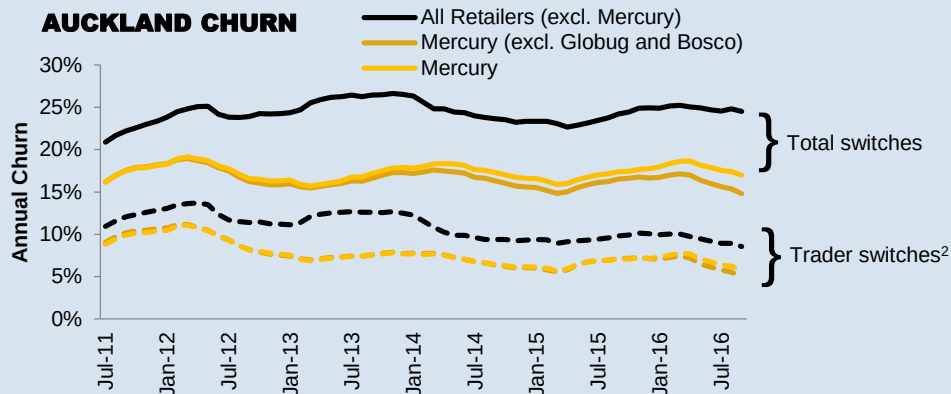
CUSTOMER

- > Retail energy prices flat, reflecting strong competition
 - > MBIE 'Residential sales-based electricity cost' flat (+0.3%) for the four years to 31 March 2016¹
- > Churn remains high relative to international benchmarks
 - > Major centres (such as Auckland) observing slightly higher churn due to customer density
 - > Historic incumbencies (such as Mercury in Auckland) showing churn advantage
 - > Churn rates of niche brands (such as Globug and Bosco) higher reflecting behaviours of customer bases

NATIONAL CHURN



AUCKLAND CHURN



*Step up in Mercury trader churn from May 2015 partially related to consolidation of niche brands (i.e. switching between Mercury brands)

19 MARKET DYNAMICS

Source: Electricity Authority

¹ Sales-based costs are after discount costs which reflect actual uptake of prompt payment discounts, dual fuel discounts, and incentive discounts for attracting or retaining a customer

² A trader switch is where a customer changes retailer without changing house





20 BUSINESS OVERVIEW

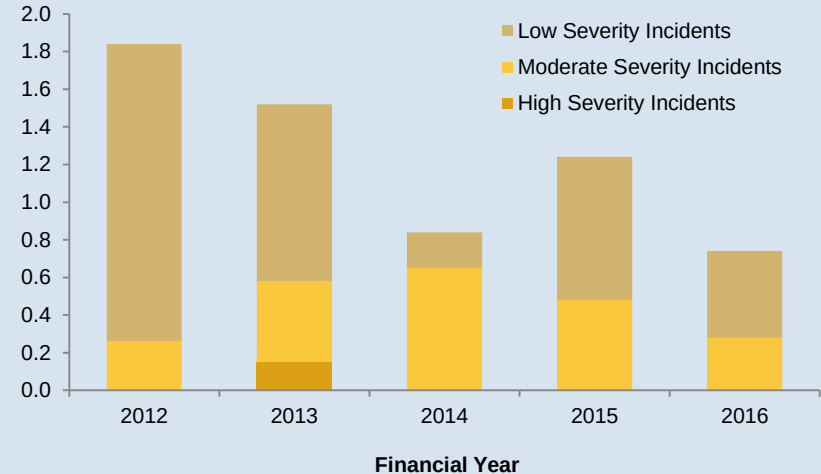


HEALTH & SAFETY

- > Zero harm is our well-being goal
- > FY2016 demonstrates continued improvement in achieving our goal
 - > no high severity incidents involving employees, contractors or visitors on Mercury controlled sites
 - > reduction of lost time (moderate severity) incidents from 5 to 3
 - > continued high engagement survey rating reflecting commitment to the health and safety of Mercury's people
- > One high severity incident in FY2017 to date
 - > A contractor was injured in an office stair fall
- > Collaboration to improve industry-wide safety with initiatives such as the industry forum - StayLive

TOTAL RECORDABLE INJURY FREQUENCY RATE (TRIFR)

(per 200,000 hours; includes onsite employees and contractors)

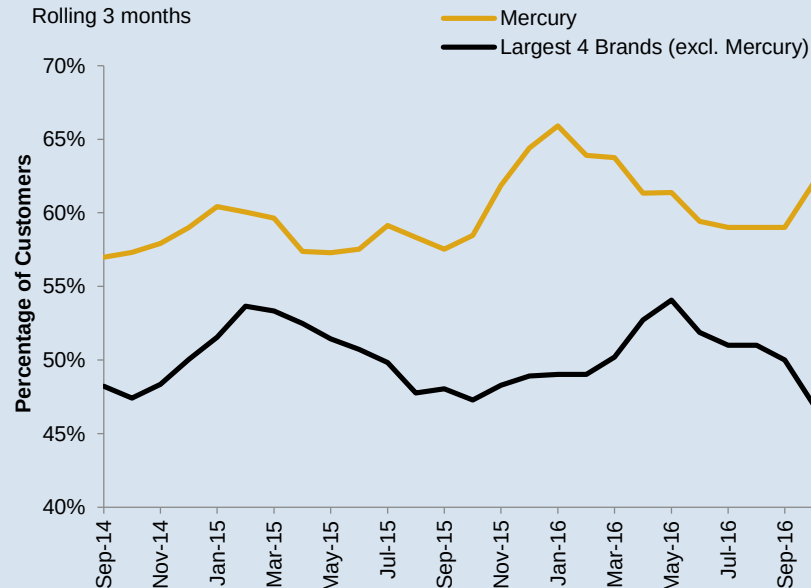


CUSTOMER

- > Rewarding loyalty leading to increased customer satisfaction and reduced churn
 - > Free Power Day – a loyalty product which helps customers appreciate the value of electricity
 - > Airpoints – Mercury has partnered with Air New Zealand to enable customers to earn Airpoints dollars
 - > 41% of Mercury² residential customers on fixed-price contracts
 - > Through FY2016 61% of Mercury² customers responded as highly satisfied in the Company's regular survey – the highest of the five large retailers
- > On-going focus on increasing depth of customer relationships through innovative propositions
 - > The acquisition of in-house solar capability through the purchase of What Power Crisis (WPC) adds to innovative customer solutions available – GLOBUG, Good Energy Monitor (GEM) and fixed-price contracts
 - > Enabling customers to utilise electricity as a transport fuel – EV fuel package, customer discounts for e-bikes and partnering with Plugshare to establish the country's 'Electric Highway'

CUSTOMERS HIGHLY SATISFIED¹²

Rolling 3 months



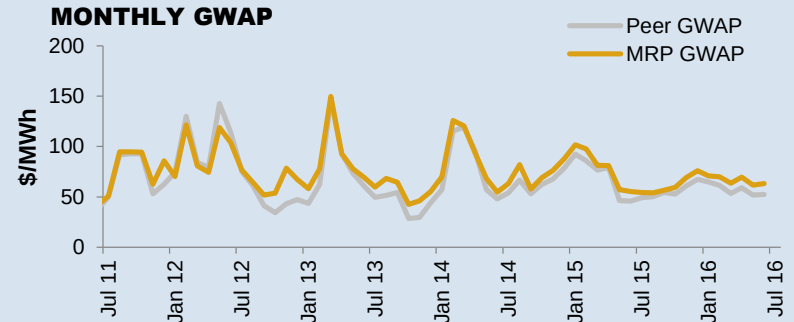
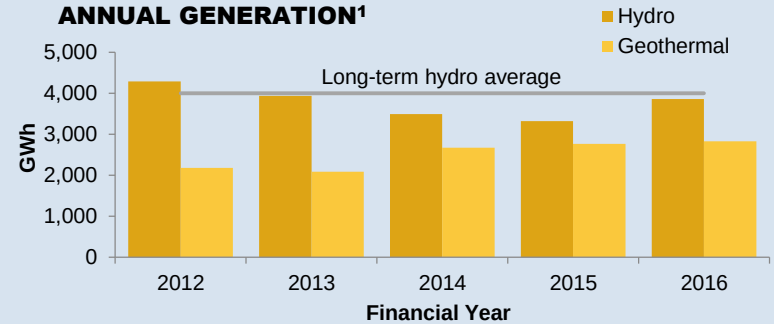
¹ Based on Mercury's monthly survey

² Mercury (excluding Bosco and GLOBUG)



ELECTRICITY GENERATION

- > 100% renewable generation with two complementary low-cost fuel sources
 - > High up-front build cost, low operating cost
 - > Central North Island close to major load centres and not dependent on HVDC
 - > Generation Weighted Average Price (GWAP) favourable to peers reflecting the flexibility and location of assets
- > Flexible hydro generation (1052MW)
 - > Largest series of peaking stations in North Island
 - > Seasonal inflow patterns correlated with demand and inversely correlated to those of the major South Island hydro catchments²
 - > Built 1929 - 1970
- > Base-load geothermal generation
 - > Only renewable not dependent on weather
 - > Built 1997 - 2013



¹ A long term time-series of hydro generation can be found in the appendix (pg. 35)

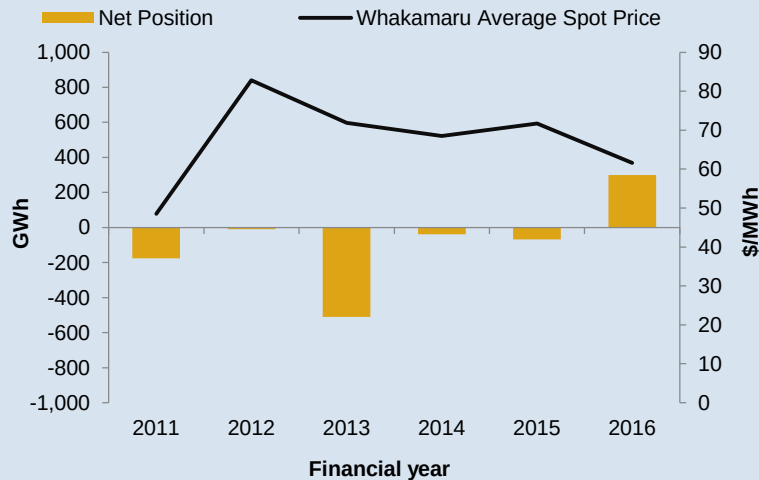
² Further detail can be found in the appendix (pg. 36)



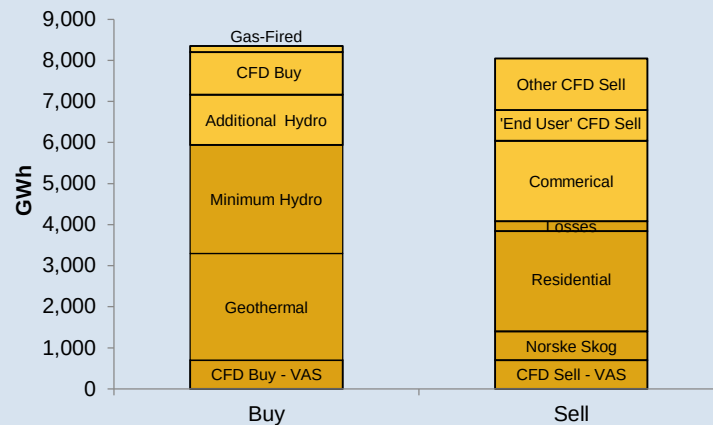
PORTFOLIO MANAGEMENT

- > Average net long (generation) position reflecting integrated portfolio and closure of Southdown
- > Portfolio management is subject to robust risk management framework
- > Movement in net position year-on-year due to hydrology, plant availability and value of sales

ANNUAL NET POSITION



FY2016 ANNUAL NET POSITION

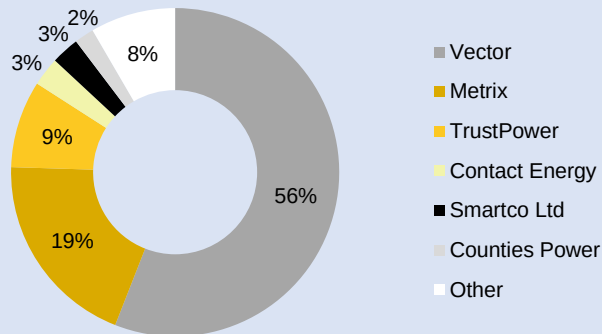


METRIX

- > Metrix 2nd largest NZ meter data and services provider with 436k meters owned or under management¹
 - > Market consolidated and initial meter upgrade largely complete or contracted
- > Smart meter deployment has enabled customer-led product development
 - > Broadly utilised by retailers with products such as Mercury's Free Power Days, GEM and GLOBUG

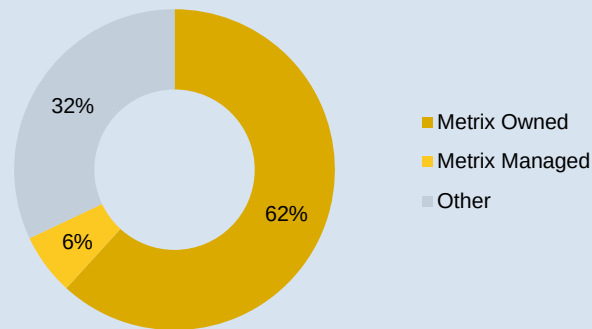
NATIONAL MARKET SHARE

September 2016



GREATER AUCKLAND MARKET SHARE²

September 2016



¹ 396k meters are owned by Metrix

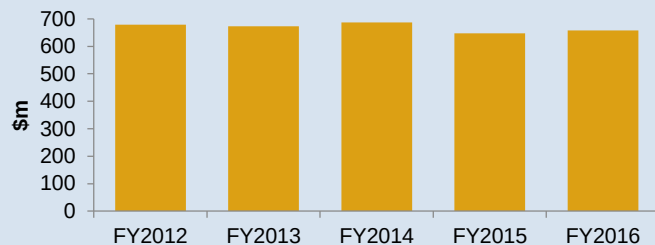
² Includes Vector and Counties networks



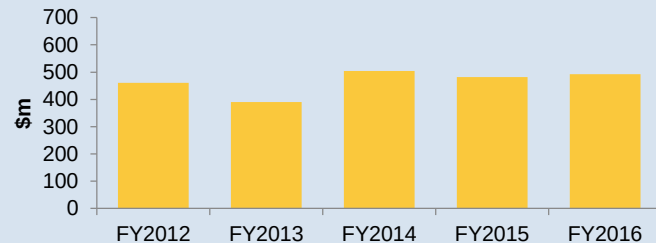


FINANCIAL TRACK RECORD

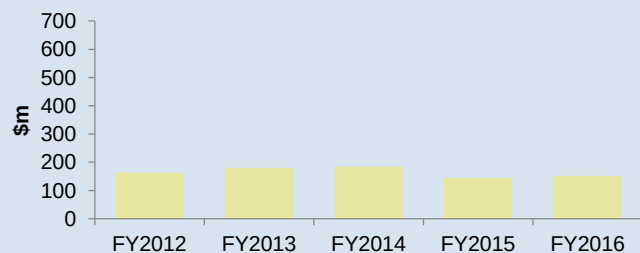
ENERGY MARGIN



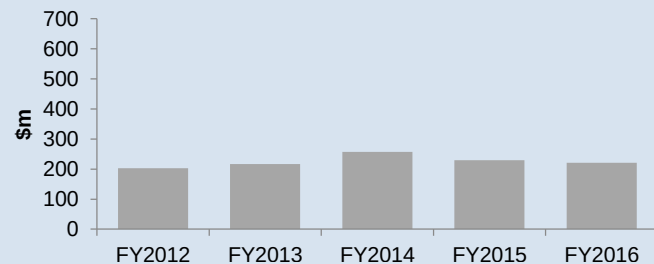
EBITDAF



UNDERLYING EARNINGS

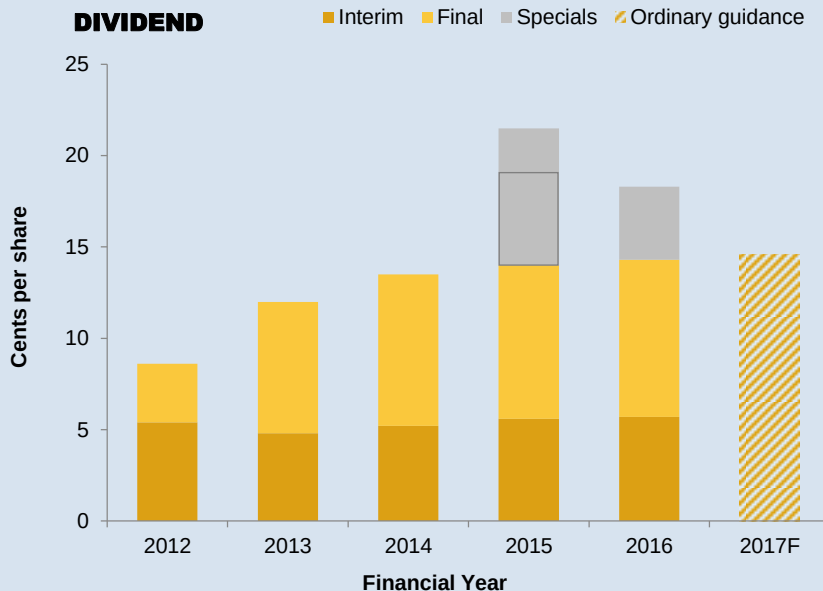


FREE CASH FLOW



DIVIDENDS

- > Mercury's dividend policy is to make distributions with a pay-out ratio of 70% to 85% of Free Cash Flow on average through time¹
 - > FY2017 ordinary dividend guidance is an increase of 2% to 14.6cps, the sixth year of consecutive ordinary dividend growth
- > Supplementary dividend paid to non-residents to reduce economic impact of Non-Resident Withholding Taxes
- > Focus remains on appropriate capital management
 - > FY2016 non-imputed special dividend of 4.0cps increased total distributions to 100% of Free Cash Flow and distributed proceeds from land sales within FY2015 and FY2016

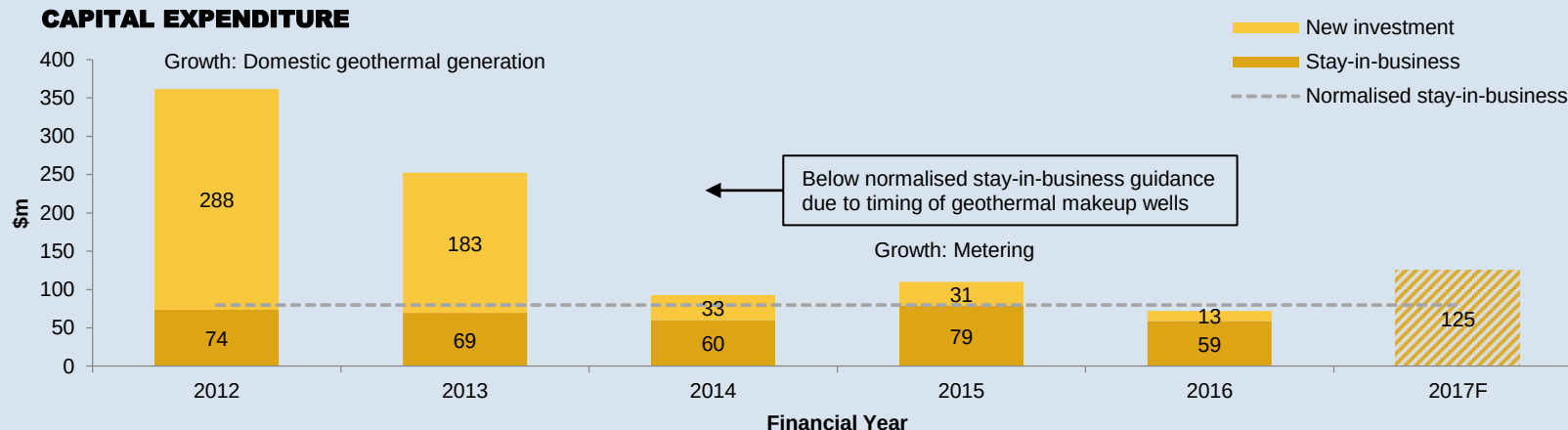


¹ With consideration given to working capital requirements, maintenance of a BBB+ credit rating, economic market and hydrological risks, and estimated financial performance



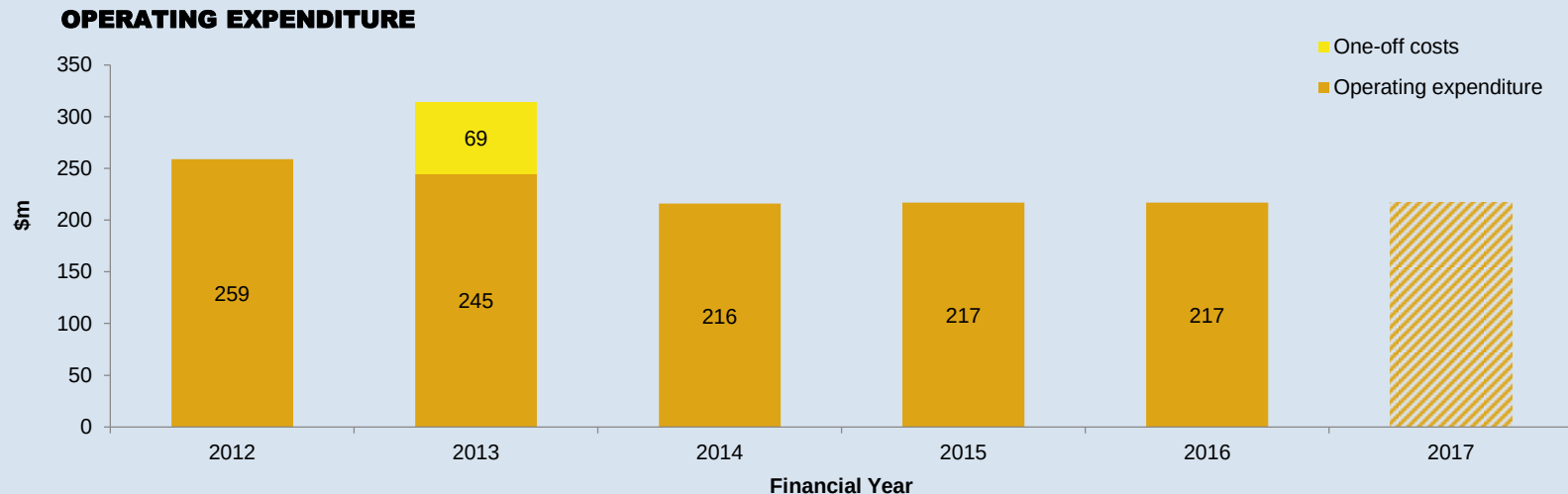
CAPITAL EXPENDITURE

- > Stay-in-business capital expenditure expect to be circa \$80m per annum over the medium term
- > FY2017 guidance of \$125m for stay-in-business and for minimal growth capital expenditure
 - > Stay-in-business includes the drilling of four wells as part of a co-ordinated drilling campaign across multiple reservoirs (circa \$55m) and the continuation of the company's hydro refurbishment programme
 - > Stay-in-business consistent with medium-term guidance (FY2013 to FY2017f average circa \$80m)



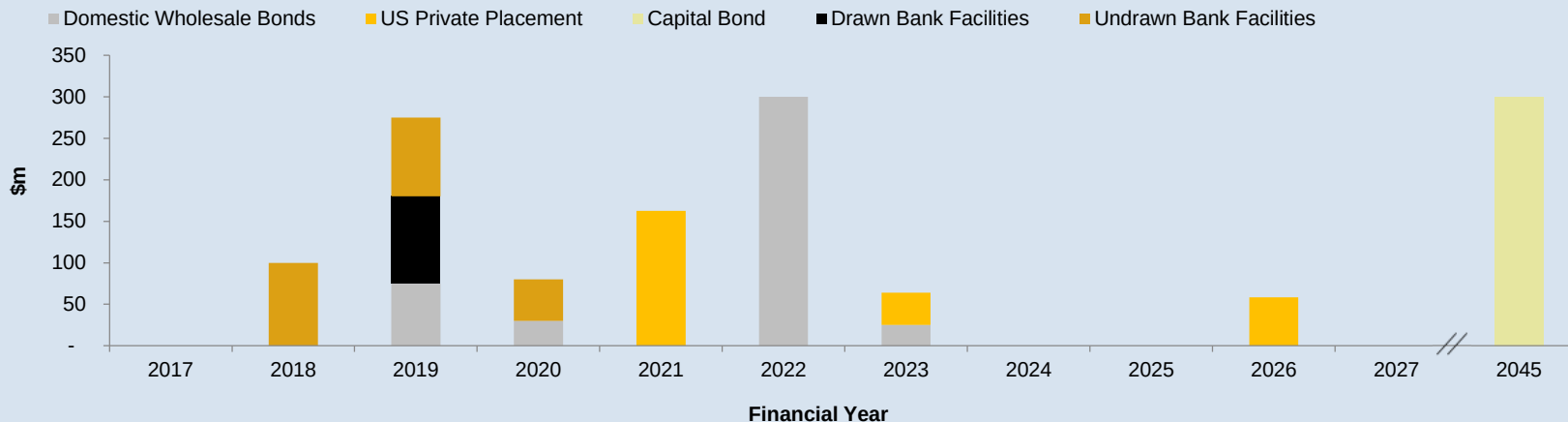
OPERATING EXPENSES

- > FY2017 operating costs guided to be comparable with FY2016 levels
- > Operating expenditure below 2010 levels, despite 2 new geothermal stations added



FUNDING PROFILE

DEBT MATURITIES AS AT 31 OCTOBER



- > The average debt maturity profile for committed facilities was 9.2 years at 31 October 2016
- > Interest costs elevated due to interest rate hedges put in place in 2008 during the company's domestic geothermal investment programme. These hedges roll off progressively from the end of FY2018 with an estimated \$20-30m annual cash flow benefit in FY2019



CAPITAL STRUCTURE

- > bbb stand alone rating is key reference point for dividend policy and a sustainable capital structure
 - > S&P re-affirmed Mercury's credit rating of BBB+/stable on 23 December 2015
 - > One-notch upgrade given majority Crown ownership
 - > Key ratio for stand alone S&P credit rating bbb requires Debt / EBITDAF between 2.0x and 2.8x
- > Capital management continues to be reviewed
 - > Debt/EBITDAF 2.0x at 30 June 2016
 - > Gearing will be maintained reflecting majority Government ownership

	30 June 2016	30 June 2015	30 June 2014	30 June 2013	30 June 2012
Net debt (\$m)	1,068	1,082	1,031	1,028	1,116
Gearing ratio (%)	24.4	24.5	24.3	24.4	27.0
Debt/EBITDAF (x)	2.0 ¹	2.0 ¹	2.1	2.7	2.6

¹ Adjusted for S&P treatment of subordinated debt

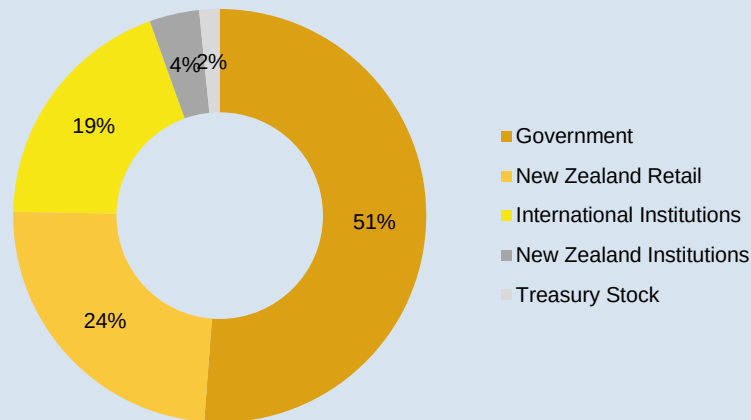




OWNERSHIP

- > Listed on NZX and ASX in May 2013
- > Currently more than 90,000 shareholders (widest held New Zealand register)
- > Government majority ownership
 - > Public Finance Act and Company's constitution require at least 51% Crown ownership
 - > No other person may hold more than 10% of shares
- > Eight independent Directors
- > No direct government representation on Board

MERCURY SHARE REGISTER¹



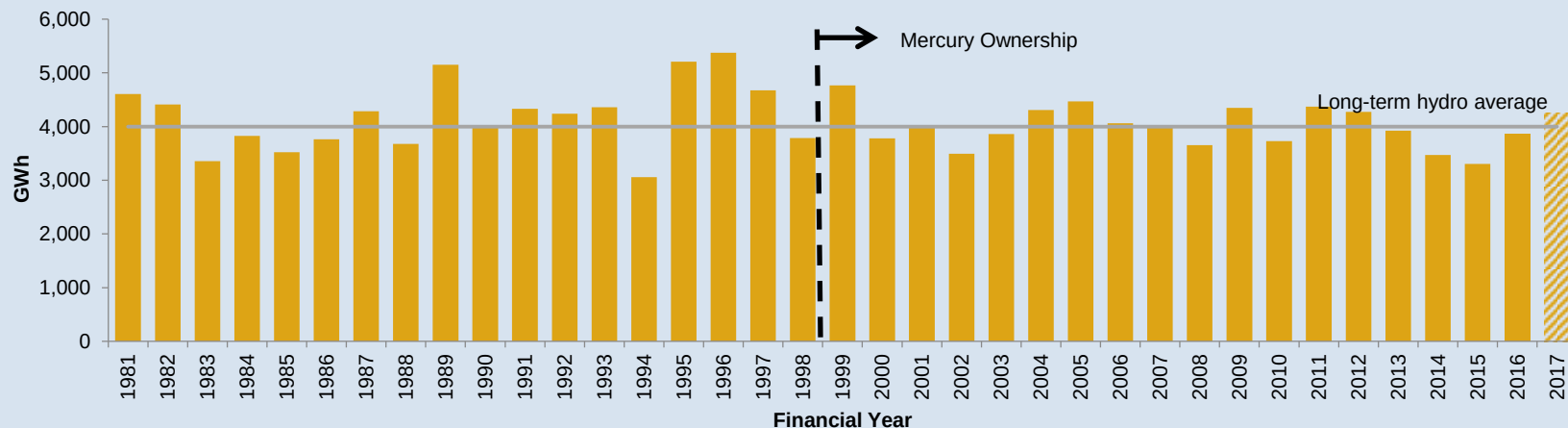
¹ Data as at October 2016



WAIKATO HYDRO SYSTEM

- > A cascade river system with nine power stations along the Waikato River (New Zealand's longest river)
- > Supports average annual generation of 4,000GWh - since 1999 ranged from 3,300GWh to 4,800GWh
- > Maximum storage capacity of 580GWh in Lake Taupo (New Zealand's largest lake by area); minimum flow requirement 7.5GWh per day

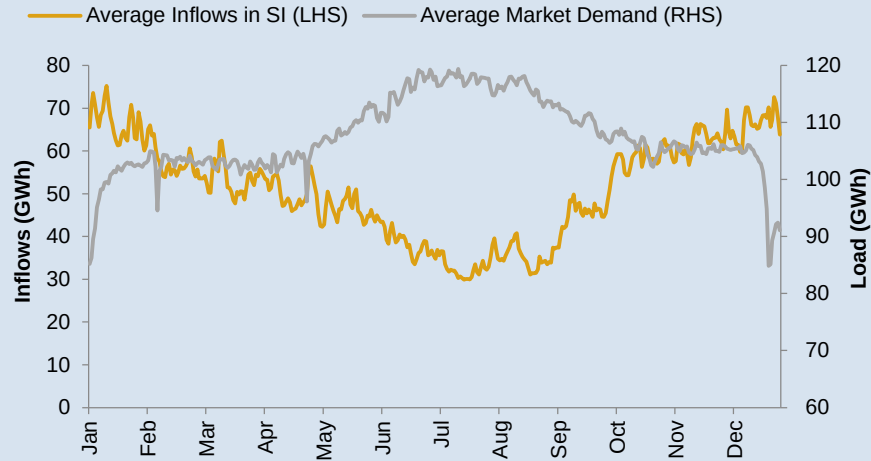
WAIKATO HYDRO SYSTEM GENERATION



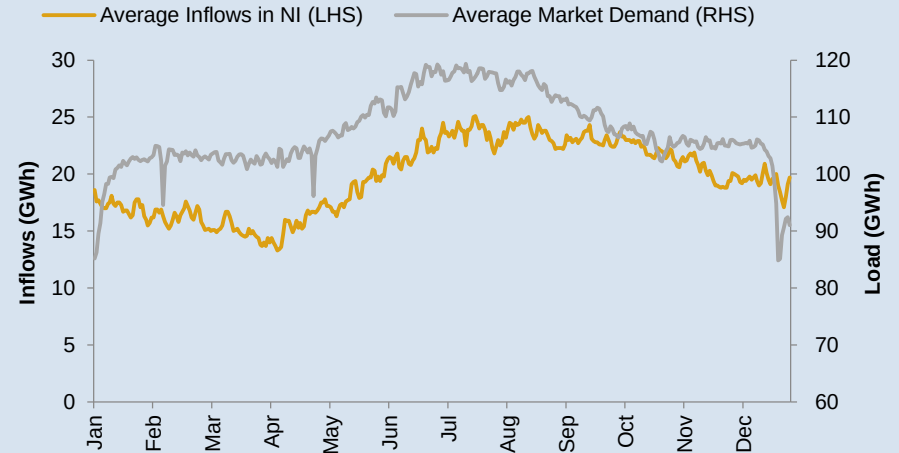
INFLOW DISTRIBUTIONS

> Positive correlation of North Island hydro inflows and sales

AVERAGE SOUTH ISLAND INFLOWS VS. DEMAND



AVERAGE NORTH ISLAND INFLOWS VS. DEMAND



REFERENCE MATERIAL

Mercury Investor Centre

www.mercury.co.nz/Investor-Centre

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www.em6live.co.nz

Electricity futures prices

www.asx.com.au/products/energy-derivatives/new-zealand-electricity.htm

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